VZCZCXRO0861
PP RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #5614/01 2992047
ZNR UUUUU ZZH
P 262047Z OCT 07
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 9334
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEHC/DEPT OF LABOR WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHMFIUU/CDR USSOUTHCOM MIAMI FL PRIORITY
RHMFIUU/CDR USNORTHCOM PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 MEXICO 005614

SIPDIS

SENSITIVE
SIPDIS

STATE FOR A/S SHANNON
STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA
STATE FOR EB/ESC MCMANUS AND IZZO
USDOC FOR 4320/ITA/MAC/WH/ONAFTA/ARUDMAN
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA (ALICE FAIBISHENKO, ANNA JEWEL)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND RDAVIS
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (ANDREA RAFFO)
NSC FOR RICHARD MILES, DAN FISK

E.O. 12958: N/A
TAGS: ECON ECPS EFIN ELAB MX PGOV PREL
SUBJECT: MEXICO ECONOMIC NOTES, OCTOBER 19-26, 2007

¶1. (SBU) SUMMARY: The Chamber of Deputies on October 23 approved the 2008 Revenue Bill for a total of 2.57 trillion pesos (USD 236 billion). A PRD proposal to include in the Revenue Bill a provision to establish a government body to control imports and exports of sensitive agricultural products like corn and beans was defeated in the Chamber of Deputies, and thus not sent forward to the Senate for consideration. The Revenue Bill will now move to the Senate for approval by the end of the month, while the Chamber turns its attention to the Expenditure Bill. The government on October 25 announced a few changes to the Foreign Direct Investment Law, which include increasing sanctions for companies that fail to report their investments on time and allowing the use of internet and other technological tools to submit reports. The Bank of Mexico (BOM) on October 26 lifted the benchmark interest rate by 25 basis points to 7.50%, to the surprise of many market analysts. Simultaneous with announcements made in Washington and other capitals, Mexico announced on October 23 that it would join with the U.S., Japan, Canada, the EU, and Switzerland in negotiating an Anti-Counterfeiting Trade Agreement (ACTA). Experts expect a wave of court injunctions to be filed against the recently passed fiscal reform once it takes effect on January
¶1. A major energy research firm calls Mexican production declines following 2011 unstoppable. END SUMMARY.

Lower House Approves Revenue Bill

¶2. (U) After having approved the revenue chapter of the budget "in general" on October 18, the Chamber of Deputies (lower house) approved remaining articles of the 2008 Revenue Bill on October 23. The plan allows for 2.57 trillion pesos (USD 236 billion) in spending, 152.5 billion pesos more than initially proposed by the Calderon government. Approximately 119.0 billion pesos of this extra revenue comes from the tax overhaul legislation approved on September 14, 17.9 billion pesos from increasing the oil price estimate from USD 46.60

per barrel to USD 49.00 a barrel, and the rest from other taxes. Hacienda has said that much of these additional resources will be channeled to infrastructure projects. The bill will now move to the Senate for approval by the end of the month, while the Chamber turns its attention to the Expenditure Bill, which has to be approved by November 15.

Protectionist Proposal Rejected

¶3. (SBU) A proposal by the main leftist opposition party to include in the federal revenue bill for 2008 a provision to establish a government body to control imports and exports of sensitive agricultural products like corn and beans was defeated in the Chamber of Deputies, and thus not sent forward to the Senate with the rest of the revenue package. Embassy Foreign Agricultural Service and Economic officers had alerted relevant congressional offices of U.S. concerns that such a body would constitute a violation of Mexico's NAFTA commitments. Post will continue to track this issue as the Senate considers the revenue bill.

Planned Investment Law Changes Mostly Administrative

¶4. (SBU) Under Secretary of Foreign Investment and International Trade Practices Carlos Arce on October 25 announced planned changes to the Foreign Direct Investment Law. While, during previous meeting with Econoff, Economia had expressed an interest in making deeper changes, the planned amendments only increase sanctions for those companies that fail to report their investments on time, and allow the use of internet and other technological tools to submit reports. Arce used the announcement of updated

investment figures for the first half of 2007 -- USD 14.6 billion, over USD 1.3 billion more than the investment that was reported on time -- as proof that companies need stricter penalties for late reporting. There are no planned modifications to allow more foreign investment in restricted sectors such as telecommunications, energy or transportation, but the government acknowledges that the opening of these sectors could attract more investment. Arce said that Economia continues to expect over USD 23 billion in foreign direct investment (FDI) flows to Mexico for CY 2007 and that the increase in FDI over the previous few years reflects the confidence investors have in the country and its strategic geographical location.

Central Bank Hikes Interest Rates

¶5. (U) The Bank of Mexico (BOM) on October 26 lifted the benchmark interest rate by 25 basis points to 7.50%, to the surprise of many market analysts. In its press release, the BOM said the move was intended to help prevent the "contamination" of wages and other prices and to stem inflation expectations. The central bank also announced that inflation will not drop to 3 percent (its target inflation rate) until the end of 2009, a year later than was forecasted only a couple of months ago. While headline inflation came in less than expected for the first half of October, the core inflation result was disappointing, due in part to higher prices for pasteurized milk and tobacco. Core prices rose 0.21% during this time period -- more than the median estimate of 0.15% in a Bloomberg survey of 18 economists.

Mexico Joins ACTA Initiative

¶6. (SBU) Simultaneous with announcements made in Washington and other capitals, Mexico announced on October 23 that it would join with the U.S., Japan, Canada, the EU, and Switzerland in negotiating an Anti-Counterfeiting Trade Agreement (ACTA). Gilda Gonzalez of the Mexican Institute of

Industrial Property (IMPI, rough equivalent of U.S. PTO) said that IMPI would lead the Mexican negotiating team, which would also include representatives of the Office of the Attorney General of the Republic, the Mexican National Copyright Institute, and Customs. Gonzalez noted that the goal of the ACTA was for member nations to commit to stronger enforcement of intellectual property rights, though she emphasized that the agreement should focus on technical assistance and cooperation with the private sector over establishing penalties regime for non-compliance.

Fiscal Reform Likely to be Challenged

¶7. (SBU) Experts expect a wave of court injunctions to be filed against the recently passed fiscal reform once it takes effect on January 1. Some law experts have argued that parts of the legislation are unconstitutional because they are "unequal." These "a la carte" injunctions will be tied to the impact the new tax regime has on each taxpayer. In the past, lawsuits filed by a group of people were used to challenge tax regulations, but this time around companies and lawyers will have to modify their strategy, as the Single Rate Corporate Tax (IETU) affects taxpayers differently. The new Tax on Cash Deposits (IDE) could also be challenged in the courts. No precedence exists on the IETU and IDE because they are new taxes.

Consultants Call Mexican Production Decline Unstoppable

¶8. (SBU) In analysis prepared for clients, and shared with

the Embassy, energy consultants Cambridge Energy Research Associates (CERA) called 2008 budget changes reducing effective taxes on Pemex from 79 percent of income in 2006 to 71.5 percent in 2012 insuffiicent to stem declining production. The firm suggests that the lion's share of Pemex reserves are associated with marginal fields and rapidly declining producing assets. Even if future exploration efforts bear fruit, CERA believes that it will be impossible for Pemex to contain Mexican production decline after 2011.

Visit Mexico City's Classified Web Site at http://www.state.sgov.gov/p/wha/mexicocity and the North American Partnership Blog at http://www.intelink.gov/communities/state/nap /
BASSETT